

**Commonwealth of Massachusetts
Department of Telecommunications and Energy**

Request for Comments)	
On the Procurement of Default)	D.T.E. 04-115
Service Power Supply for Residential)	
And Small Commercial and Industrial)	
Customers.)	

**REPLY COMMENTS
OF
WPS ENERGY SERVICES, INC.'s**

WPS Energy Services, Inc. (“WPS Energy Services”) welcomes this opportunity to submit the following comments in response to positions presented by other interested parties at the Technical Conference held in this docket on June 20, 2005. In an effort to offer the Department of Telecommunications and Energy (“DTE”) insight gained from serving wholesale and retail electric and natural gas markets throughout the Midwest and Northeastern regions of the country, WPS Energy Services will share experiences gained through years of service, and through trial and error, in other markets.

1. The distinction between a customer’s “preferred savings” and what they regard as “acceptable savings” is important.

After more than 10 years of experience in energy and energy service markets, WPS Energy Services continues to offer attractive savings opportunities to residential, small and large commercial, and industrial customers. In Ohio, for example, we offer customers opportunities to save money compared to standard/default service in retail electric and natural gas, through direct customer sign-up and also through municipal

aggregation.¹ Based on our experience, it appears that customers have “preferred savings” as well as minimum “acceptable savings” expectations. While it may be said that more customers will shop directly and individually when motivation to do so is high, i.e. there is a high savings expectation, it must also be said that many customers will shop and accept even minimal savings when perceived risks are low.

Opinions raised by the Attorney General’s office are generally helpful but may fail to distinguish between what a customer would like to save ideally and what a customer is willing to accept based on actual market performance. Even if one were to set aside questions like “Were the individuals surveyed by the Attorney General in predominately affluent neighborhoods” and “how many of the questionnaires were completed by people on fixed incomes”, it is not clear that the Attorney General’s findings provide insight on the distinction between desired or preferred savings and minimum acceptable savings.

Of the hundreds of thousands of customers served by WPS Energy Services over the years, one thing is clear: customers will always prefer to save more. Yet, time and time again, informed customers accept market-based savings which, at times, are less than 10%. There may indeed be a point where savings are so small that they are not perceived as worth the trouble of shopping, but that should be up to the customer. Many customers will switch for smaller savings, if the environment makes it easy for them to

¹ Examples of programs served by WPS Energy Services include: the City of Cleveland Electric Aggregation Program with savings: small commercial at 3.4% off total bill; residential at 5.6% off total bill; combined savings for Cleveland’s program estimated at 7.1 million dollars since 2001. City of Euclid Electric Aggregation Program savings: residential 8.9% off total bill total savings estimated at 1.2 million dollars since 2002. City of Cleveland Heights Natural Gas Aggregation program residential and small commercial savings at 1.2 million dollars since 2002.

do so. An example of this is opt-out aggregation which brings the supplier to the customer.

WPS Energy Services has observed on several occasions that what we regarded as low or unacceptable savings, a high number of communities have found attractive and acceptable. To the extent the market allows, WPS Energy Services offers higher savings opportunities than many of our competitors and we are fortunate to see our customers return each year in hope of continued and higher savings. We believe that what is important is that customers be given an opportunity to save and to establish their own minimum saving threshold. Allowing the individual customer to decide whether it is worth it to them to take a particular opportunity is what drives competitive market growth.

2. The role of the default or standard service provider is a threshold question when determining the appropriate length and procurement method (laddered approach verses non-laddered approach) for default service.

NStar appears to favor the role where the local distribution company would continue to procure supply similar to its traditional role. NStar's proposal "25% for 2 years, procured every 6 months" seems to further entrench the local distribution utility in the supply business and systematically locks at least 25% to 75% of customers out of the market for up to 2 years at a time on a non-market based rate. This is an example of a "quasi" competitive rate and brings to question what should be the role of the distribution utility in Massachusetts's emerging competitive market. Should the distribution utility seek to provide a "competitive" rate, a "quasi" competitive rate, or simple, short-term default service?

WPS Energy Services recommends the latter. That approach best promotes long-term competition. Our experience has been that as long as the distribution utility has a role in providing “competitive” service in any form, new market entrants will find it difficult to enter the market. A short term default service approach will promote competition as customers will look to alternative suppliers for longer term price certainty. The DTE should consider the imbedded conflict in trying to achieve both high switching levels and a desirable default service rate. Marketers will offer products that meet customer needs. However, the more comfortable the default service option, the harder it will be to get customers to switch, and a lower number of switches will occur.

NStar’s statements regarding shorter term contracts are generally true: “shorter term contracts keep rates current with the market; smaller price changes generally occur; consumers don’t like frequent rate changes; smaller tranches are less attractive to suppliers; and more administration cost for suppliers and utilities.” If default service were truly default and short term in nature, all of these factors would encourage customers to shop and to seek competitively priced, longer-term market alternatives. The distribution utility could have a provider of last resort role with customers moved to other providers for longer term service.

3. A purchase of receivables agreement is essential when competitive suppliers lack the ability to disconnect during the collections process.

WPS Energy Services served residential, electric customers in Ohio starting in 2001 through most of 2003 without a purchase of receivable. The results were disastrous. The local distribution utilities paid competitive suppliers whatever was left after the utilities’ past due amounts and current charges and fees were deducted first. As a result a

customer who made a partial payment or paid late would have no money applied to their supplier charges. Customers were confused when they saw their balances with WPS Energy Services increasing even though they had paid their bill. Letters from WPS Energy Services to delinquent customers asking and encouraging payment went unheeded. Without the ability to disconnect customers, non-affiliated, competitive electric suppliers in Ohio struggled with collections. Ultimately, WPS Energy Services and another competitive supplier joined forces and filed a complaint against the local utilities.² As with any start-up business or new product line, resources were limited and litigating a complaint was the last thing the competitive suppliers wanted to do, or should have had to do, in order to stay in business. The resources expended and time wasted could all have been avoided had the distribution utility agreed to a receivable agreement from the beginning.

On a going forward basis, WPS Energy Services requires a receivables agreement or some other way to enforce the collection process. The end of the complaint process in Ohio led to revision of the priority of payment rules. From each customer payment, the competitive supplier's past due amounts were to be paid first, local distribution utility past due second, local distribution utility's current amount due third, and the competitive supplier's current amounts paid last. This was not a perfect solution, and not as good as a fair receivable agreement, but it is far better than having to rely on letters and phone calls to collect. While receivable agreements are preferred, at a minimum Massachusetts state should arrange a priority of payment methodology that seeks to minimize the impact on competitive suppliers that lack the ability to disconnect for non-payment. In Ohio, the

² See Public Utility Commission of Ohio Case No. 02-1944-EL-CSS (WPS Energy Services and Green Mountain Energy Company v. First Energy Corp.)

distribution utility retained the sole ability to disconnect for non-payment and also has authority to negotiate payment plans with delinquent supplier customers. Massachusetts should consider a similar approach or endorse receivables agreements.

We are pleased to see that National Grid supports the purchase of receivables approach. As long as the discount rate is transparent, and adjustments to the discount rate are transparent, such agreements will attract competitive suppliers. Without a workable payment priority methodology or a transparent receivables agreement, it will be difficult to attract suppliers with strong credit ratings. Otherwise, those suppliers who choose to do business may limit their offers based on a customer's credit or payment history. In short, a purchase of receivables agreement is attractive to suppliers because it helps define the majority of the bad debt risk. Bad debt is a cost of business that is factored into the customer's rate. High bad debt levels means higher customer rates, lower savings opportunities, and low switching levels. The reverse is generally true where bad debt risk is minimized through a receivables agreement.

Respectfully Submitted,

A handwritten signature in dark ink, reading "Ivan L. Henderson". The signature is fluid and cursive, with the first name "Ivan" and last name "Henderson" clearly legible.

Ivan L. Henderson
Manager of Regulatory Affairs
WPS Energy Services, Inc.